SEPTEMBER 2006 FR Y-9C CHANGES

MASTER

General Instructions

reorganization, or branch acquisition,

a reorganization, or a branch acquisition that is not a business combination,

For tiered bank holding companies. When bank holding companies with total consolidated assets of less than $500 million, own or control, or are owned or controlled by, other bank holding companies (i.e., are tiered bank holding companies), the top-tier holding company must file the FR Y-9SP for the top-tier parent company of the bank holding company. In addition, such tiered bank holding companies must also submit, or have the bank holding company subsidiary submit, a separate FR Y-9SP for each lower-tier bank holding company.

When a bank holding company that has total consolidated assets of less than $500 million is a subsidiary of a bank holding company that files the FR Y-9C, the bank holding company that has total consolidated assets of less than $500 million would report on the FR Y-9LP rather than the FR Y-9SP.

The instructions for the FR Y-9LP, FR Y-9ES, and the FR Y-9SP are not included in this booklet but may be obtained from the Federal Reserve Bank in the district where the bank holding company files its reports, or may be found on the Federal Reserve Board's public website (www.federalreserve.gov/boarddocs/reportforms).

B. Exemptions from Reporting the Bank Holding Company Financial Statements

The following bank holding companies do not have to file bank holding company financial statements:

(1) a bank holding company that has been granted an exemption under Section 4(d) of the Bank Holding Company Act; or

(2) a "qualified foreign banking organization" as defined by Section 211.23(a) of Regulation K (12 CFR 211.23(a)) that controls a U.S. subsidiary bank.

is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (2) conducts significant off-balance-sheet activities, including securitizations or managing or administering assets for third parties, either directly or through a nonbank subsidiary; or (3) has a material amount of debt or equity securities (other than trust preferred securities) outstanding that are registered with the Securities and Exchange Commission.

In addition, any bank holding company that is not subject to the Federal Reserve's Capital Adequacy Guidelines, but nonetheless elects to comply with the guidelines, are required to file a complete FR Y-9C and FR Y-9LP report, and generally would not be permitted to revert back to filing the FR Y-9SP report in any subsequent periods.

Bank holding companies that are not required to file under the above criteria may be required to file this report by the Federal Reserve Bank of the district in which they are registered.

C. Shifts in Reporting Status

A top-tier bank holding company that reaches $500 million or more in total consolidated assets as of June 30 of the preceding year must begin reporting the FR Y-9C and the FR Y-9LP in March of the current year, and any lower-tier bank holding companies must begin reporting the FR Y-9LP in March of the current year. If a top-tier bank holding company reaches $500 million or more in total consolidated assets due to a business combination, then the bank holding company must begin reporting the FR Y-9C and the FR Y-9LP with the first quarterly report date following the effective date of the business combination, and any lower-tier bank holding companies must begin reporting the FR Y-9LP with the first quarterly report date following the effective date ~~of the business combination~~. In general, once a bank holding company reaches or exceeds $500 million in total consolidated assets and begins filing the FR Y-9C and FR Y-9LP, it should file a complete FR Y-9C and FR Y-9LP going forward (and any lower-tier bank holding companies should file a complete FR Y-9LP going forward). If a bank holding company's total consolidated assets should subsequently fall to less than $500 million for four consecutive quarters, then the bank holding company may revert to filing the FR Y-9SP (and any lower-tier bank holding companies may revert to filing the FR Y-9SP).

Where to Submit the Reports

Electronic Submission

All bank holding companies must submit their completed reports electronically. Bank holding companies should contact their district Reserve Bank or go to www.reportingandreserves.org for procedures for electronic submission.

When to Submit the Reports

The *Consolidated Financial Statements for Bank Holding Companies* (FR Y-9C) are required to be submitted as of March 31, June 30, September 30, and December 31. The submission date for bank holding

B. Report Form Captions, Non-applicable Items and Instructional Detail

No caption on the report forms shall be changed in any way. An amount or a zero should be entered for all items except in those cases where (1) the reporting bank holding company does not have any foreign offices; (2) the reporting company does not have any depository institutions that are subsidiaries other than commercial banks; or (3) the reporting bank holding company has no consolidated subsidiaries that render services in any fiduciary capacity and its subsidiary banks have no trust departments. If the reporting bank holding company has only domestic offices, Schedule HC, items 13(b)(1) and 13(b)(2), and Schedule HI, items 1(a)(2) and 2(a)(2) should be left blank. If the reporting company does not have any depository institutions that are subsidiaries other than commercial banks, then Schedule HC-E, items 2(a) through 2(e) should be left blank. If the reporting company does not have any trust activities, then Schedule HI, item 5(a) should be left blank. Bank holding company should leave blank memorandum items 9(a) through 9(d) of Schedule HI if the reporting bank holding company does not have average trading assets of $2 million or more (reported on Schedule HC-K, item 4(a)) as of the March 31st report date of the current calendar year.

√ In addition, bank holding companies who are not required to report Schedule HC-D~~, or Schedule HC-R~~ may leave these schedules blank.

There may be areas in which a bank holding company wishes more technical detail on the application of accounting standards and procedures to the requirements of these instructions. Such information may often be found in the appropriate entries in the Glossary section of these instructions or, in more detail, in the GAAP standards. Selected sections of the GAAP standards are referenced in the instructions where appropriate. The accounting entries in the Glossary are intended to serve as an aid in specific reporting situations rather than a comprehensive statement on accounting for bank holding companies.

Questions and requests for interpretations of matters appearing in any part of these instructions should be addressed to the appropriate Federal Reserve Bank (that is, the Federal Reserve Bank in the district where the bank holding company submits this report).

C. Rounding

For bank holding companies with total assets of less than $10 billion, all dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than $500 will be reported as zero. For bank holding companies with total assets of $10 billion or more, all dollar amounts may be reported in thousands, but each bank holding company, at its option, may round the figures reported to the nearest million, with zeros reported in the thousands column. For bank holding companies exercising this option, amounts less than $500,000 will be reported as zero.

Rounding could result in details not adding to their stated totals. However, to ensure consistent reporting, the rounded detail items should be adjusted so that the totals and the sums of their components are identical.

On the *Consolidated Financial Statements for Bank Holding Companies*, "Total assets" (Schedule HC, item 12) and "Total liabilities, minority interest, and equity capital" (Schedule HC, item 29), which must be equal, must be derived from unrounded numbers and then rounded to ensure that these two items are equal as reported.

D. Negative Entries

Except for the items listed below, negative entries are generally not appropriate on the FR Y-9C and should not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. Items for which negative entries may be made, include:

(1) Schedule HI, memorandum item 6, "Other noninterest income (itemize and describe the three largest amounts that exceed 1 percent of the sum of Schedule HI, item 1(h) and 5(m))."

(2) Schedule HI, memorandum item 7 "Other noninterest expense (itemize and describe the three largest amounts that exceed 1 percent of Schedule HI, items 1(h) and 5(m))."

(3) Schedule HI, item 5(e), "Venture capital revenue."

(4) Schedule HI, item 5(f), "Net servicing fees."

(5) Schedule HI, item 5(g), "Net securitization income."

- M7(d), "Printing, stationery, and supplies,"
- M7(e), "Postage,"
- M7(f), "Legal fees and expenses,"
- M7(g), "FDIC deposit insurance assessments."

For other components of "other noninterest expense" that exceed the disclosure threshold, list and briefly describe these components in memoranda items 7(h) through 7(j).

Do not itemize "Benefits, losses, and expenses from insurance-related activities." These amounts are reported separately in Schedule HI, memorandum item 12(c).

If gains have been reported in Schedule HI, item 7(d), use the absolute value of such gains to determine whether the amount of the gains exceeds one percent of the total amount reported in items 1(h) plus 5(l) and whether such gains should be reported in this memorandum item. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount is a net gain or loss.) If gains are reported in this memorandum item, enclose in parentheses. A sample of the types of items that may require disclosure has been included in the instructions to item 7(d) above. The description of each item reported in memoranda items 7(h) through 7(j) should be reported in the area marked as "text" on the report form **in a clear and concise manner** and limited to 132 characters per item (including punctuation and spaces). Do not use words such as "miscellaneous" or "other" to describe these items. The dollar amount should be reported in the adjacent column on the right. If there are no reportable amounts for memoranda items 7(h) through 7(j), then these items should be left blank.

Line Item M8 Extraordinary items and other adjustments.

List and briefly describe in items M8(a) through M8(c) below each extraordinary item or adjustment included in item 12, "Extraordinary items, net of applicable income taxes and minority interest" below. However, each item should be reported separately, gross of income taxes and the income tax effect separately reported, as indicated.

If an extraordinary item or other adjustment is a loss or otherwise reduces the bank holding company's income, enclose the dollar amount reported in parentheses. If an applicable income tax effect is a tax benefit (rather than a tax expense), enclose the dollar amount reported in parentheses.

Included as extraordinary items and other adjustments:

(1) The material effects of any extraordinary items. Extraordinary items are very rare and the criteria which must be satisfied in order for an event or transaction to be reported as an extraordinary item are discussed in the Glossary entry for "extraordinary items."

(2) Material aggregate gains or losses from extinguishments of the consolidated bank holding company's own debt unrelated to sinking fund requirements, as determined in accordance with the provisions of FASB Statement No. 4.

(3) Material aggregate gains on troubled debt restructurings of the consolidated bank holding company's own debt, as determined in accordance with the provisions of FASB Statement No. 15.

(4) The cumulative effect of all changes in accounting principles except those required to be reported in Schedule HI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles." Refer to the Glossary entry for "accounting changes" for further discussion of changes in accounting principles.

(5) Material aggregate gains or losses from disposals of segments of the consolidated bank holding company's business, as determined in accordance with the provisions of APB Opinion No. 30.

(6) Material net gains or losses from disposals of significant assets within two years after a pooling of interests business combination.

Line Item M9 Trading revenue (from cash instruments and derivative instruments).

This item is to be completed by bank holding companies that reported average trading assets (Schedule HC-K, item 4(a)) of $2 million or more for any quarter of the preceding calendar year.

Report in the appropriate item below, a breakdown of trading revenue that has been included in the body of the income statement in Schedule HI, item 5(c). For each of the four types of underlying risk exposure, report the

Schedule HC-B

INSERT A

originally established or chartered by the U.S. government to serve public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. government.

Include, among others, debt securities (but not mortgage-backed securities) of the following government-sponsored agencies:

(1) Federal Agricultural Mortgage Corporation (Farmer Mac)

(2) Federal Farm Credit Banks

(3) Federal Home Loan Banks (FHLBs)

(4) Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

(5) Federal Land Banks (FLBs)

(6) Federal National Mortgage Association (FNMA or Fannie Mae)

(7) Financing Corporation (FICO)

(8) Resolution Funding Corporation (REFCORP)

(9) Student Loan Marketing Association (SLMA or Sallie Mae)

(10) Tennessee Valley Authority (TVA)

(11) U.S. Postal Service

Line Item 3 Securities issued by states and political subdivisions in the U.S.

Report amortized cost and fair value of all securities issued by states and political subdivisions in the United States not held in trading accounts.

States and political subdivisions in the U.S., for purposes of this report, include:

(1) the fifty states of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and

(2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Securities issued by states and political subdivisions include:

(1) General obligations, which are securities whose principal and interest will be paid from the general tax receipts of the state or political subdivision.

(2) Revenue obligations, are securities whose debt service is paid solely from the revenues of the projects financed by the securities rather than from general tax funds.

(3) Industrial development and similar obligations.

Treatment of industrial development bonds (IDBs). IDBs, sometimes referred to as "industrial revenue bonds," are typically issued by local industrial development authorities to benefit private commercial and industrial development. For purposes of this report, all IDBs should reported as securities in this item or as loans in Schedule HC-C, (item 9) consistent with the asset category in which the bank holding company reports its IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule HC-B or as loans in Schedule HC-C, all IDBs that meet the definition of a "security" in FASB Statement No. 115 must be measured in accordance with Statement No. 115.

Treatment of other obligations of state and political subdivisions in the U.S. In addition to those IDBs that are reported as securities in accordance with the preceding paragraph, also include in this item as securities issued by states and political subdivisions in the U.S., all obligations other than IDBs that meet any of the following criteria:

(1) Nonrated obligations of states and political subdivisions in the U.S., other than those specifically excluded below, that the bank holding company considers securities for other financial reporting purposes.

(2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service.

(3) Obligations of state and local governments that are guaranteed by the U.S. government (excluding mortgage-backed securities).

Exclude from item 3:

(1) All overdrafts of states and political subdivisions in

Schedule HC-B

INSERT (B)

Class B

~~Mac), and~~ common stock of the Federal Home Loan Mortgage Corporation (Freddie Mac).

The fair value of an equity security is readily determinable if sales or bid-and-asked quotations are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by the National Quotation Bureau. ("Restricted stock," as defined In FASB Statement No. 115, does not meet this definition. For the definition of this term, see the instructions to Schedule HC-F, item 4). The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

Investments in mutual funds and other equity securities with readily determinable fair values may have been purchased by the reporting bank holding company or acquired for debts previously contracted.

Exclude from investments in mutual funds and other equity securities with readily determinable fair values:

(1) Paid-in stock of a Federal Reserve Bank (report as an equity security that does not have a readily determinable fair value in Schedule HC-F, item 4).

(2) Stock of a Federal Home Loan Bank (report as an equity security that does not have a readily determinable fair value in Schedule HC-F, item 4).

(3) Common and preferred stocks that do not have readily determinable fair values, such as stock of bankers's banks and voting common stock of theFederal Agricultural Mortgage Corporation (Farmer Mac) (report in Schedule HC-F, item 4).

(4) Preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (report such preferred stock as an other debt security in Schedule HC-B, item 6, above).

(5) "Restricted stock," as defined in FASB Statement No. 115, i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year (report "restricted stock" as an equity security that does not have a readily determinable fair value in Schedule HC-F, item 4).

(6) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock in the bank (report as an equity security that does not have a readily determinable fair value in Schedule HC-F, item 4).

(7) Minority interests held by the reporting bank holding company in any companies not meeting the definition of associated company (report as equity securities that do not have a readily determinable fair value in Schedule HC-F, item 4), except minority holdings that indirectly represent bank holding company premises (report in Schedule HC, item 6) or other real estate owned (report in Schedule HC, item 7), provided that the fair value of any capital stock representing the minority interest is not readily determinable. (See the Glossary entry for "subsidiaries" for the definition of associated company.)

(8) Equity holdings in those corporate joint ventures over which the reporting bank holding company does not exercise significant influence (report as equity securities that do not have a readily determinable fair value in Schedule HC-F, item 4), except equity holdings that indirectly represent bank holding company premises (report in schedule HC, item 6) or other real estate owned (report in Schedule HC, item 7). (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture.)

(9) Holding of capital stock of and investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the reporting bank holding company exercises significant influence (report in Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies").

Line Item 8 Total.

Report the sum of items 1 through 7. The total of column A for this item must equal Schedul HC, item 2(a), "Held-to-maturity securities." The total for column D

Schedule HC-B

INSERT C

Structured notes include, but are not limited to, the following common structures:

(1) Floating rate debt securities whose payment of interest is based upon:

(a) a single index of a Constant Maturity Treasury (CMT) rate or a Cost of Funds Index (COFI), or

(b) changes in the Consumer Price Index (CPI). However, *exclude* from structured notes all U.S. Treasury Inflation-Protected Securities (TIPS).

(2) Step-up Bonds. Step-up securities initially pay the investor an above-market yield for a short noncall period and then, if not called, "step up" to a higher coupon rate (which will be below current market rates). The investor initially receives a higher yield because of having implicitly sold one or more call options. A step-up bond may continue to contain call options even after the bond has stepped up to the higher coupon rate. A multistep bond has a series of fixed and successively higher coupons over its life. At each call date, if the bond is not called, the coupon rate increases.

(3) Index Amortizing Notes (IANs). IANs repay principal according to a predetermined amortization schedule that is linked to the level of a specific index (usually the London Interbank Offered Rate—LIBOR—or a specified prepayment rate). As market interest rates increase (or prepayment rates decrease), the maturity of an IAN extends, similar to that of a collateralized mortgage obligation.

(4) Dual Index Notes. These bonds have coupon rates that are determined by the difference between two market indices, typically the Constant Maturity Treasury rate (CMT) and LIBOR. These bonds often have a fixed coupon rate for a brief period, followed by a longer period of variable rates, e.g., 8 percent fixed for two years, then 10-year CMT plus 300 basis points minus three-month LIBOR.

(5) De-leveraged Bonds. These bonds pay investors according to a formula that is based upon a fraction of the increase or decrease in a specified index, such as the CMT rate or the prime rate. For example, the coupon might be the 10-year CMT rate multiplied by 0.5, plus 150 basis points. The deleveraging multiplier (0.5) causes the coupon to lag overall movements in market yields. A leveraged bond would involve a multiplier greater than 1.

(6) Range Bonds. Range bonds (or accrual bonds) pay the investor an above-market coupon rate as long as the reference rate is between levels established at issue. For each day that the reference rate is outside this range, the bonds earn no interest. For example, if LIBOR is the reference rate, a bond might pay LIBOR plus 75 basis points for each day that LIBOR is between 3.5 and 5.0 percent. When LIBOR is less than 3.5 percent or more than 5 percent, the bond would accrue no interest.

(7) Inverse Floaters. These bonds have coupons that increase as rates decline and decrease as rates rise. The coupon is based upon a formula, such as 12 percent minus three-month LIBOR.

Exclude from structured notes floating rate debt securities denominated in U.S. dollars whose payment of interest is based upon a single index of a Treasury bill rate, the prime rate, or LIBOR and which do not contain adjusting caps, adjusting floors, leverage, or variable principal redemption. Furthermore, debt securities that do not possess the aforementioned characteristics of a structured note need not be reported as structured notes solely because they are callable as of a specified date at a specified price. In addition, debt securities that in the past possessed the characteristics of a structured note, but which have "fallen through" their structures (e.g., all of the issuer's call options have expired and there are no more adjustments to the interest rate on the security), need not be reported as structured notes.

Generally, municipal and corporate securities that have periodic call options should not be reported as structured notes. Although many of these securities have features similar to those found in some structured notes (e.g., step-ups, which generally remain callable after a step-up date), they are not commonly known as structured notes. Examples of such callable securities that should not be reported as structured notes include:

(1) Callable municipal and corporate bonds which have single (or multiple) explicit call dates and then can be called on any interest payment date after the last explicit call date (i.e., they are continuously callable).

September

(MD&A) of Form 10-K and Form 10-Q filed with the SEC.

Each bank holding company should ensure that it accurately reports its URL. Do not provide an e-mail address in the space for the Web address. The URL reported in this item will be publicly available. Examples of URLs are www.bhc.com/riskdisclosure and www.bhc.com/fin/; do not preface with http:// because this is already included on the form.

INSERT D

Schedule HC-N above. Exclude from this item all loans secured by real estate included in item 1 of Schedule HC-N above. This item corresponds with the amounts reported in memoranda item 2 of Schedule HC-C.

Line Item M3 Loans and leases included in Schedule HC-N, items 1, 2, 4, 5, 6, 7, and 8 extended to non-U.S. addresses.

Report the total amount of past due and nonaccrual loans and leases extended to customers domiciled in a foreign country.

See the Glossary entry for "domicile" for the definition of non-U.S. addressee.

Line Item M4 Not applicable.

Line Item M5 Loans and leases held for sale.

Report in the appropriate column the amount of all loans and leases held for sale included in Schedule HC, item 4(a), that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and leases will have been included in one or more of the loan and lease categories in items 1 through 8 of Schedule HC-N above.

Line Item M6 Interest rate, foreign exchange rate, and other commodity and equity contracts: Fair value of amounts carried as assets.

Report in the appropriate column the fair value for all interest rate, foreign exchange rate, and other derivative contracts commodity and equity contracts (as defined for Schedule HC-L, item 11) on which a required payment by the bank holding company's counterparty is past due 30 days or more as of the report date.

INSERT E

Line Item M7 Additions to nonaccrual assets during the quarter. ~~*(This item is to be reported beginning December 31, 2003.)*~~

~~Report the gross amount of all loans (net of unearned income) and other assets that have been placed on nonaccrual status since the prior quarter-end. Report additions to nonaccrual assets that are included in Schedule HC-N, column C, items 1 through 9. Also include amounts placed in nonaccrual status during the quarter (and would be reportable in Column C, items 1 through 9), but have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or returned to accrual status. Note: Report all nonaccrual assets sold during the quarter in Schedule HC-N, memoranda item 8.~~

~~Do not deduct net charge-offs. Do not deduct transfers to the accrual status or transfers to another past due category. If a given asset is placed in nonaccrual status more than once during the quarter, report only one amount.~~

Line Item M8 Nonaccrual assets sold during the quarter. ~~*(This item is to be reported beginning December 31, 2003.)*~~

~~Report the gross outstanding balance of all assets held in nonaccrual status (i.e., reportable in Schedule HC-N, column C items 1 through 9) that were sold during the current quarter. The amount refers to the outstanding balance at the time of the sale. Do not include any gains or losses from the sale. For purposes of this item, only include those nonaccrual asset sales that meet the criteria for a sale as set forth in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For further information, see the Glossary entry for "Transfers of Financial Assets."~~

INSERT F

NEW SCHEDULE HC-P

INSERT G

Schedule HC-R

INSERT (H)

does not qualify for inclusion in Tier 1 capital based on the Federal Reserve's capital guidelines for bank holding companies. For bank holding companies, both cumulative and noncumulative perpetual preferred stock qualifies for inclusion in Tier 1 capital. However, the aggregate amount of cumulative preferred stock that may be included in a bank holding company's Tier 1 capital is limited to one-third of the sum of (1) common stockholders' equity, (2) qualifying noncumulative preferred stock (including related surplus) and (3) minority interest in the equity accounts of consolidated subsidiaries. Cumulative perpetual preferred stock in excess of this limit should be reported as nonqualifying perpetual preferred stock in this item. Although the amount reported in this item is not eligible for Tier 1 capital, it may be eligible for inclusion in Tier 2 capital in Schedule HC-R, item 13.

NOTE: For assistance in determining the amounts to be reported in items 5, 6(a) and 6(b), see the examples presented at the end of Schedule HC-R instructions.

Line item 6(a) Qualifying minority interests in consolidated subsidiaries and similar items.

Report the portion of minority interests in consolidated subsidiaries included in Schedule HC, item 22, that is included in Tier 1 capital based on the capital guidelines. Generally, bank holding companies may include minority interests in equity capital accounts (both common and noncumulative perpetual preferred stocks) of consolidated subsidiaries unless such accounts would not otherwise qualify for inclusion in Tier 1 capital.

Line item 6(b) Qualifying trust preferred securities.

Report instruments generally known as trust preferred securities that are issued by *consolidated* special purpose entities and reported in Schedule HC, item 19(b), that are included in Tier 1 capital and are within the limits for cumulative preferred stock as described in the risk-based capital guidelines. For special purpose entities that issue trust preferred securities and the entity is *not consolidated,* bank holding companies can include in Tier 1 capital the amount of the notes payable to the unconsolidated subsidiary, net of the bank holding company's investment in the special purpose entity, up to the limits for cumulative preferred stock as described in the risk-based capital guidelines. The amount of trust preferred stock (or notes payable to unconsolidated special purpose entities that issue trust preferred securities, net of investment in the entity) included in Tier 1 capital and reported in this item is limited together with cumulative perpetual preferred stock as described for Schedule HC-R, item 5 above. Amounts in excess of these limits should be reported in Schedule HC-R, item 16 below. For further information, see the glossary for "Trust preferred securities issued."

NOTE: For assistance in determining the amounts to be reported in items 5, 6(a) and 6(b), see the examples presented at the end of Schedule HC-R instructions.

Line item 7 LESS: Disallowed goodwill and other disallowed intangible assets.

Report the portion of goodwill included in Schedule HC, item 10(a), and the portion of other identifiable intangible assets included in Schedule HC-M, item 12(c), that does not qualify for inclusion in Tier 1 capital based on the capital guidelines. Generally, all goodwill reported in Schedule HC, item 10(a), and all other identifiable intangible assets reported in Schedule HC-M, item 12(c), do not qualify for Tier 1 capital and should be included in this item.

However, if the bank holding company has a deferred tax liability that is specifically related to an intangible asset (other than servicing assets and purchased credit card relationships) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of this deferred tax liability. However, a deferred tax liability that the bank holding company chooses to net against the related intangible asset for purposes of this item may not also be netted against deferred tax assets when the bank holding company determines the amount of deferred tax assets that are dependent upon future taxable income and calculates the maximum allowable amount of such deferred tax assets for regulatory capital purposes.

If the amount reported for other identifiable intangible assets in Schedule HC-M, item 12(c), includes intangible assets that were recorded on the reporting bank holding company's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

INSERT (I)

debt security," i.e., at fair value with unrealized gains (losses) reported in "Other comprehensive income," report (1) the difference between the asset's fair value and amortized cost in column B as a positive number if fair value exceeds cost or as a negative number if cost exceeds fair value, (2) the asset's amortized cost multiplied by 2 in column F—100% risk weight, and (3) the asset's amortized cost as a negative number in column B.

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule HC) like a "Trading asset," i.e., at fair value with unrealized gains (losses) included in current earnings, report (1) the asset's fair value multiplied by 2 in column F—100% risk weight, and (2) the asset's fair value as a negative number in column B.

Treatment of Embedded Derivatives

If a bank holding company has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under FASB Statement No. 133, then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank holding company's assets on Schedule HC—Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule HC-R (items 34 to 42). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Allocated Transfer Risk Reserves (ATRRs)

If the reporting bank holding company is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the Federal Reserve's regulation implementing the Act (Subpart D of Federal Reserve Regulation K), and in any guidelines, letters, or instructions issued by the Federal Reserve, the ATRR should be reported in Schedule HC-R, item 61. The ATRR is not eligible for inclusion in either Tier 1 or Tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule HC, item 4(c), "Allowance for loan and lease losses," and separately disclosed in Sechedule HI-B, part II, memorandum item 1. However, if the bank holding company must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule HC. In this situation, the ATRR should be reported as a negative number (i.e., in parentheses) in column B, "Items Not Subject to Risk-Weighting," of the corresponding asset category in Schedule HC-R, items 34 through 38, 41, and 42. The amount to be risk-weighted for this asset in column C, D, E, or F, as appropriate, would be its net carrying value plus the ATRR. For example, a bank holding company has a held-to-maturity security issued by a foreign commercial company against which it has established an ATRR of $20. The security, net of the ATRR, is included in Schedule HC, item 2(a), "Held-to-maturity securities," at $80. The security should be included in Schedule HC-R, item 35, column A, at $80. The bank holding company should include $(20) in Schedule HC-R, item 35, column B, and $100 in item 35, column F.

Line item 34 Cash and balances due from depository institutions.

Report in column A the amount of cash and balances due from depository institutions reported in Schedule HC, sum of items 1(a) and 1(b).

In column C—0% risk weight, include the amount of currency and coin plus any balances due from Federal Reserve Banks reported in Schedule HC, item 1(a) and any balances due from central banks in other OECD countries reported in Schedule HC, items 1(a) and 1(b).

In column F—100% risk weight, include balances due from non-OECD depository institutions with remaining maturities of over one year, all non-local currency claims on non-OECD central banks, and local currency claims on non-OECD central banks that exceed the local currency liability held by the bank holding company.

In column D—20% risk weight, include all other amounts that are not reported in column C or F.

Line item 35 Held-to-maturity securities.

Report in column A the amortized cost of held-to-maturity (HTM) securities reported in Schedule HC, item 2(a).

INSERT (J)

In column C—0% risk weight, include the carrying value of Federal Reserve Bank stock included in Schedule HC-F, item 4; accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule HC-R, items 34 through 41); and the carrying value of gold bullion not held for trading that is held in the bank holding company's own vault or in another institution's vault on an allocated basis.

In column D—20% risk weight, include the carrying value of Federal Home Loan Bank stock included in Schedule HC-F, item 4; accrued interest receivable on assets included in the 20 percent risk weight category (column D of Schedule HC-R, items 34 through 41); and the portion of customers' acceptance liability reported in Schedule HC, item 11, that has been participated to other depository institutions. Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule HC, item 11, that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.

In column E—50% risk weight, include accrued interest receivable on assets included in the 50 percent risk weight category (column E of Schedule HC-R, items 34 through 41). Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule HC, item 11, that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.

In column F—100% risk weight, include the amount of all other assets reported in column A that is not included in columns B through E. However, for residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule HC, item 11, include the amortized cost of those that are rated in the lowest investment grade category, e.g., BBB, and the amortized cost multiplied by 2 of those that are rated one category below investment grade, e.g., BB.

Line item 43 Total assets.

For columns A through F, report the sum of items 34 through 42. The sum of columns B through F must equal column A.

Derivatives and Off-Balance Sheet Items

Bank holding companies should refer to the supervisory guidance issued by the Federal Reserve for information on how they should treat credit derivatives for risk-based capital purposes and, as a consequence, for purposes of completing the section of Schedule HC-R for derivatives and off-balance sheet items.

Line item 44 Financial standby letters of credit.

For financial standby letters of credit reported in Schedule HC-L, item 2, that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report in column A:

(1) the amount outstanding and unused of those letters of credit subject to a risk weight of 100% or less, and

(2) two times the amount outstanding and unused of those letters of credit subject to a 200% risk weight.

For these financial standby letters of credit, report in column B 100% of the amount reported in column A.

For all other financial standby letters of credit reported in Schedule HC-L, item 2, report *in column A:*

(1) the amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit. These financial standby letters of credit are subject to the low-level exposure rule. For these financial standby letters of credit, report as the credit equivalent amount in column B their amount outstanding and unused multiplied by either 12.5 or by the institution-specific factor determined in the manner described in the instructions for Schedule HC-R, item 50.

(2) the full amount of the assets that are credit-enhanced by those letters of credit that are not subject to the low-level exposure rule. For these financial standby letters of credit, report in column B 100% of the amount reported in column A.

In column D—20% risk weight, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule HC-L, item 2(a), that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less). Also include in column D the credit equivalent

Glossary

INSERT (K)

Noninterest-Bearing Account: See "Deposits."

Nontransaction Account: See "Deposits."

Notes and Debentures Subordinated to Deposits: See "Subordinated notes and debentures."

Offsetting: Offsetting is the reporting of recognized assets and liabilities on a net basis on the balance sheet where the "right of setoff" exists as discussed in APB Opinion 10 and defined in FASB Technical Bulletin 88-2. In addition, bank holding companies are permitted to offset assets and liabilities recognized in the FR Y-9C for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts executed with the same counterparty when a "right of setoff" exists. Under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, a right of setoff exists when all of the following conditions are met:

(1) Each party owes the other determinable amounts. Thus, only bilateral netting is permitted.

(2) The reporting party has the right to set off the amount owed with the amount owed by the other party.

(3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.

(4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, a master netting arrangement exists if the reporting bank holding company has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability on the balance sheet. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other pronouncements identified in Interpretation No. 39. These pronouncements apply to such items as leverage leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under Interpretation No. 41 must be applied consistently.

One-Day Transaction: See "Federal funds transactions."

Option: See "Futures, forward, and standby contracts."

Organization Costs: See "Start-up Activites."

Other Real Estate Owned: See "Foreclosed Assets" and the instructions to Schedule HC-M, item 13.

Overdraft: An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a "loan" rather than being treated as a negative deposit balance.

Planned overdrafts are to be classified in Schedule HC-C by type of loan according to the nature of the overdrawn

INSERT (L)

assets, the transaction represents an asset sale with recourse for risk-based capital purposes. For example, if assets are sold subject to a ten percent recourse liability provision (i.e., the seller's credit risk is limited to ten percent of the amount of assets sold) with no other retention of credit risk by the seller, the *total* outstanding amount of the assets sold is subject to risk-based capital, not just ten percent of the assets sold, unless the low level exposure rule (discussed in the instructions to Schedule HC-R, item 50) applies.

(3) Among the transfers where credit risk has been retained by the seller and that should be considered by the seller as asset sales with recourse for purposes of risk-based capital and Schedules HC-R and HC-S are arrangements such as the following (this list is illustrative of the principles involved in the application of the definition of "recourse" and is not all-inclusive)—

(a) the sale of an asset with a realistic bona fide put option allowing the purchaser, at its option, to return the asset to the seller;

(b) the sale of an asset guaranteed by a standby letter of credit issued by the seller;

(c) the sale of an asset guaranteed by a standby letter of credit issued by any other party in which the credit risk on the asset sold, either directly or indirectly, rests with the seller;

(d) the sale of an asset guaranteed by an insurance contract in which the seller, either directly or indirectly, indemnifies or otherwise protects the insurer in any manner against credit risk; and

(e) sales and securitizations of assets which use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, or retained securities (e.g., collateral invested amounts and cash collateral accounts) as credit enhancements.

(4) The sale of a loan or other asset subject to an agreement under which the seller will pass through to the purchaser a rate of interest that differs from the stated rate of interest on the transferred asset would not, for this reason alone, require the transaction to be treated as an asset sale with recourse for risk-based capital purposes provided (1) the seller's obligation to pass interest through to the purchaser is contingent upon the continued interest payment performance of the underlying obligor of the transferred asset (i.e., the seller has no obligation to pass interest through if the obligor defaults in whole or in part on interest or principal) and (2) none of the other characteristics of the sale or participation causes the transaction to meet the definition of "recourse."

(5) The definition of "recourse" applies to all transfers of assets, including sales of a single asset or of a pool of assets and sales of participations in a single asset or in a pool of assets (whether of similar or dissimilar instruments). In participations that qualify for sale treatment under generally accepted accounting principles and are not "syndications" (as described in the Glossary item for that term), the seller of the participations should handle the transfer of shares to participants in accordance with the definition of "recourse," even though the assets being participated were acquired or accumulated for the express purpose of issuing participations and even though the participation was prearranged with the purchasers of the participations. However, the definition of "recourse" does not apply to the *initial* operation and distribution of participations in the form of syndications, since in a syndication there is no transfer of assets involved of the type to which this definition is addressed. Any *subsequent* transfers of shares, or parts of shares, in a syndicated loan would be subject to the "recourse" definition.

(6) The definition of "recourse" (and these interpretations and illustrations) is also applicable to asset transfers that are made to special or limited purpose entities that are not technically affiliated with the seller. Regardless of the legal structure of the transaction, if credit risk is retained by the seller, either contractually or otherwise, either directly or indirectly, the seller should treat the transaction as an asset sale with recourse for purposes of risk-based capital and Schedules HC-R and HC-S even if the sale to the special purpose entity is stated as being without recourse.

Savings Deposits: See "Deposits."

Securities Borrowing/Lending Transactions: Securities borrowing/lending transactions are typically initiated by broker–dealers and other financial institutions that

Standby Contract: See "Futures, forward, and standby contracts."

Standby Letter of Credit: See "Letter of credit."

Start-Up Activities: Guidance on the accounting and reporting for the costs of start-up activities, including organization costs, is set forth in AICPA Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*. A summary of this accounting guidance follows. For further information, see AICPA Statement of Position 98-5.

Start-up activities are defined broadly as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, or commencing some new operation. Start-up activities include activities related to organizing a new entity, such as a new bank holding company, the costs of which are commonly referred to as organization costs. Organization costs for a bank holding company are the direct costs incurred to incorporate the bank holding company. Such costs include, but are not limited to, professional (e.g., legal, accounting, and consulting) fees and printing costs directly related to the incorporation process, and the cost of economic impact studies. Costs of start-up activities, including organization costs, should be expensed as incurred. Costs of acquiring or constructing premises and fixed assets and getting them ready for their intended use are not start-up costs, but costs of using such assets that are allocated to start-up activities (e.g., depreciation of computers) are considered start-up costs.

For a new bank holding company, pre-opening expenses such as salaries and employee benefits, rent, depreciation, supplies, directors' fees, training, travel, postage, and telephone are considered start-up costs. Pre-opening income earned and expenses incurred from the bank holding company's inception through the date the bank holding company commences operations should be reported in the income statement using one of the two following methods, consistent with the manner in which the reporting bank holding company reports pre-opening income and expenses for other financial reporting purposes: (1) Pre-opening income and expenses for the entire period from the bank holding company's inception through the date the bank holding company commences operations should be reported in the appropriate items of Schedule HI, Consolidated Report of Income, each quarter during the calendar year in which operations commence; or (2) ~~The net amount of~~ STET pre-opening income and expenses for the period from the bank holding company's inception until the beginning of the calendar year in which the bank holding company commences operations should be included, along with the bank holding company's opening (original) equity capital, in Schedule HI-A, item 14, "Other adjustments to equity capital (not included above)." The net amount of these pre-opening income and expenses should be identified and described in the "Notes to the Income Statement." Pre-opening income earned and expenses incurred during the calendar year in which the bank holding company commences operations should be reported in the appropriate items of Schedule HI, Consolidated Report of Income, each quarter during the calendar year in which operations commence.

INSERT M

STRIPS: See "Coupon Stripping, Treasury Receipts, and STRIPS."

Subordinated Notes and Debentures: A subordinated note or debenture is a form of debt issued by a bank holding company or its subsidiaries. When issued by a subsidiary bank, a subordinated note or debenture is not insured by a federal agency, is subordinated to the claims of depositors, has an original weighted average maturity of five years or more. Such debt shall be issued by a bank with the approval of, or under the rules and regulations of, the appropriate federal bank supervisory agency (i.e., the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation).

When issued by a bank holding company or its consolidated nonbank subsidiaries, a subordinated note or debenture is a form of unsecured long-term debt that is subordinated to other debt of the consolidated bank holding company.

Both notes and debentures subordinated to deposits and other subordinated notes and debentures of the bank holding company are to be reported in Schedule HC, item 19(a), "Subordinated notes and debentures."

Subsidiaries: The treatment of subsidiaries in the FR Y-9C depends upon the degree of ownership held by the reporting bank holding company.

INSERT A

Exclude debt securities issued by SLM Corporation, the private-sector corporation that is the successor to the Student Loan Marketing Association (report in Schedule HC-B, item 6(a), “Other domestic debt securities,” below), and securitized student loans issued by SLM Corporation (or its affiliates) (report in Schedule HC-B, item 5, “Asset-backed securities,” below).

INSERT B

,Class A voting and Class C non-voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac), and common and preferred stock of SLM Corporation (the private-sector successor to the Student Loan Marketing Association).

INSERT C

When the principal payments on these notes are indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security, but the notes themselves are not collateralized by the mortgages or the mortgage-backed security, the notes are sometimes marketed as Prepayment-Linked Notes.

INSERT D

Line Item 23 Secured liabilities.

(This item is to be completed by all bank holding companies.)

Report in the appropriate subitem the carrying amount of federal funds purchased (in domestic offices) and “Other borrowings” that are secured, i.e., the carrying amount of these types of liabilities for which the bank holding company (or a consolidated subsidiary) has pledged securities, loans, or other assets as collateral.

Line Item 23(a) Amount of “Federal funds purchased (in domestic offices)” that are secured.

Report the carrying amount of federal funds purchased (in domestic offices) (as defined for Schedule HC, item 14(a)) that are secured.

Line Item 23(b) Amount of “Other borrowings” that are secured.

Report the carrying amount of “Other borrowings” (as defined for Schedule HC-M, item 14(d)) that are secured. Secured “Other borrowings include, but are not limited to, transfers of financial assets accounted for as financing transactions because they do not satisfy the criteria for sale accounting under FASB Statement No. 140, mortgages payable on bank holding company premises and other real estate owned, and obligations under capitalized leases.

INSERT E

Report the aggregate amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status during the calendar quarter ending on the report date. Include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule HC-N, column C, items 1 through 9. Also include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the aggregate amount of assets placed in nonaccrual status since the prior quarter-end that should be reported in this item should not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, report the amount of the asset only once.

INSERT F

Report the total of the outstanding balances of all loans, leases, debt securities, and other assets held in nonaccrual status (i.e., reportable in Schedule HC-N, column C, items 1 through 9) that were sold during the calendar quarter ending on the report date. The amount to be included in this item is the outstanding balance (net of unearned income) of each nonaccrual asset at the time of its sale. Do not report the sales price of the nonaccrual assets and do not include any gains or losses from the sale. For purposes of this item, only include those transfers of nonaccrual assets that meet the criteria for a sale as set forth in FASB Statement No. 140. For further information, see the Glossary entry for “Transfers of financial assets.”

INSERT G

LINE ITEM INSTRUCTIONS FOR
CLOSED-END 1-4 FAMILY RESIDENTIAL MORTGAGE BANKING ACTIVITIES
Schedule HC-P

General Instructions

Schedule HC-P is to be completed by (1) all bank holding companies with $1 billion or more in total assets[1] and (2) bank holding companies with less than $1 billion in total assets whose closed-end 1-4 family residential mortgage banking activities (in domestic offices) exceed a specified level. More specifically, a bank holding company with less than $1 billion in total assets must complete Schedule HC-P if ***any*** of the following residential mortgage banking activities exceed $10 million for two consecutive quarters:

(a) Closed-end first lien and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources during a calendar quarter; or
(b) Closed-end first lien and junior lien 1-4 family residential mortgage loan sales during a calendar quarter; or
(c) Closed-end first lien and junior lien 1-4 family residential mortgage loans held for sale at calendar quarter-end.

For a bank holding company with less than $1 billion in total assets, the bank holding company must complete Schedule HC-P beginning the second quarter in which the $10 million threshold is exceeded and continue to complete the schedule through the end of the calendar year. For example, if the bank holding company's closed-end first and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources exceeded $10 million during the quarter ended June 30, 2006, and the bank holding company's sales of such loans exceeded $10 million during the quarter ended September 30, 2006, the bank holding company would be required to complete Schedule HC-P in its September 30 and December 31, 2006, reports. If its total assets remain less than $1 billion, the level of this bank holding company's mortgage banking activities during the fourth quarter of 2006 and the first quarter of 2007 would determine whether it would need to complete Schedule HC-P each quarter during 2007 beginning March 31, 2007.

For purposes of Schedule HC-P, closed-end 1-4 family residential mortgage loans are defined in Schedule HC-C, item 1(c)(2), "Closed-end loans secured by 1-4 family residential properties." All closed-end 1-4 family residential mortgage loans secured by junior (i.e., other than first) liens should be reported as junior

[1] The $1 billion asset size test is generally based on the total assets reported as of **June 30.**

liens in Schedule HC-P even if the bank holding company has also originated or purchased a loan secured by a first lien on the same 1-4 family residential property and there are no intervening junior liens.

Report closed-end 1-4 family residential mortgage banking activities in domestic offices only.

Line item 1 Retail originations during the quarter of closed-end 1-4 family residential mortgage loans for sale.

Report in the appropriate subitem the principal amount of retail originations of closed-end 1-4 family residential mortgage loans for resale during the calendar quarter ending on the report date. Include as retail originations those closed-end 1-4 family residential mortgage loans for which the origination and underwriting process was handled exclusively by the bank holding company or a consolidated subsidiary of the bank holding company.

Exclude closed-end 1-4 family residential mortgage loans originated or purchased for the reporting bank's own loan portfolio.

Line item 1(a) First liens.

Report the principal amount of retail originations of closed-end first lien 1-4 family residential mortgage loans for resale during the calendar quarter.

Line item 1(b) Junior liens.

Report the principal amount of retail originations of closed-end junior lien 1-4 family residential mortgage loans for resale during the calendar quarter.

Line item 2 Wholesale originations and purchases during the quarter of closed-end 1–4 family residential mortgage loans for sale.

Report in the appropriate subitem the principal amount of wholesale originations and purchases of closed-end 1-4 family residential mortgage loans for resale during the calendar quarter ending on the report date. Include as wholesale originations and purchases those closed-end 1-4 family residential mortgage loans for resale for which the origination and underwriting process was handled in whole or in part by another party, such as a correspondent or mortgage broker, even if the loan was closed in the name of the bank holding company or a consolidated subsidiary of the bank holding company. Also include acquisitions of closed-end 1-4 family residential mortgage loans for resale that were closed in the name of a party other than the bank holding company or a consolidated subsidiary of the bank holding company.

Exclude closed-end 1-4 family residential mortgage loans originated or purchased for the reporting bank holding company's own loan portfolio.

Line item 2(a) First liens.

Report the principal amount of wholesale originations and purchases of closed-end first lien 1-4 family residential mortgage loans for resale during the calendar quarter.

Line item 2.b Junior liens.

Report the principal amount of wholesale originations and purchases of closed-end junior lien 1-4 family residential mortgage loans for resale during the calendar quarter.

Line item 3 Closed-end 1–4 family residential mortgage loans sold during the quarter.

Report in the appropriate subitem the principal amount of closed-end 1-4 family residential mortgage loans sold during the calendar quarter ending on the report date. Include transfers of closed-end 1-4 family residential mortgage loans originated or purchased for resale from retail or wholesale sources that have been accounted for as sales in accordance with FASB Statement No. 140, i.e., those transfers where the loans are no longer included in the bank holding company's consolidated total assets. Also include all sales during the quarter of closed-end 1-4 family residential mortgage loans directly from the bank holding company's loan portfolio. For further information, see the Glossary entry for "transfers of financial assets."

Line item 3(a) First liens.

Report the principal amount of closed-end first lien 1-4 family residential mortgage loans sold during the calendar quarter.

Line item 3(b) Junior liens.

Report the principal amount of closed-end junior lien 1-4 family residential mortgage loans sold during the calendar quarter.

Line item 4 Closed-end 1–4 family residential mortgage loans held for sale at quarter-end.

Report in the appropriate subitem the carrying amount of closed-end 1-4 family residential mortgages held for sale as of the quarter-end report date and included in Schedule HC, item 4(a), "Loans and leases held for sale." Loans held for sale should be reported at the lower of cost or fair value consistent with their presentation in the balance sheet (Schedule HC, item 4(a)). Closed-end 1-4 family residential mortgage loans held for sale at quarter-end include any mortgage loans transferred at any time from the bank holding company's loan portfolio to a held-for-sale account that have not been sold by quarter-end.

Line item 4(a) First liens.

Report the carrying amount of closed-end first lien 1-4 family residential mortgage loans held for sale at quarter-end.

Line item 4(b) Junior liens.

Report the carrying amount of closed-end junior lien 1-4 family residential mortgage loans held for sale at quarter-end.

INSERT H

For example, a bank holding company may not include minority interests representing cumulative preferred stock in consolidated subsidiaries since such preferred stock if issued directly by the bank holding company would not be eligible for inclusion in Tier 1 capital.

Exclude any minority interests in consolidated asset-backed commercial paper conduits if the consolidated program assets are excluded from risk-weighted assets.

INSERT I

Treatment of Asset-Backed Commercial Paper Conduits

If a bank holding company that sponsors an asset-backed commercial paper (ABCP) program is required to consolidate the ABCP conduit in accordance with FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, the sponsoring bank holding company is permitted to exclude the consolidated ABCP program assets from its risk-weighted asset base when it calculates its risk-based capital ratios. In this situation, the sponsoring bank holding company should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule HC-R. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank holding company has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the Federal

Reserve's risk-based capital standards, and risk weights them accordingly. However, unless this consolidation option has been chosen, a sponsoring bank holding company must continue to hold risk-based capital against all exposures arising in connection with its ABCP program, whether or not the program is consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule HC-R. In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital) and should not be included in Schedule HC-R, item 6(a), "Qualifying minority interests in consolidated subsidiaries and similar items," if the bank holding company excludes the consolidated ABCP program assets from risk-weighted assets as permitted by the Federal Reserve's risk-based capital standards.

INSERT J

Treatment of Liquidity Facilities for Asset-Backed Commercial Paper Programs

Bank holding companies that provide liquidity facilities to asset-backed commercial paper (ABCP) programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule HC-R (unless the bank holding company is a sponsor and has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes). The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an *eligible* liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), bank holding companies should report the full amount of the unused portion of the facility in Schedule HC-R, item 51, column A.

INSERT K

According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, FASB Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore, for purposes of filing bank holding company reports, bank holding companies should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 are met.

INSERT L

Securities Activities: Institutions should categorize each security as trading, available-for-sale, or held-to-maturity consistent with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as amended. Management should periodically reassess its security categorization decisions to ensure that they remain appropriate.

Securities that are intended to be held principally for the purpose of selling them in the near term should be classified as trading assets. Trading activity includes active and frequent buying and selling of securities for the purpose of generating profits on short-term fluctuations in price. Securities held for trading purposes must be reported at fair value, with unrealized gains and losses recognized in current earnings and regulatory capital.

Held-to-maturity securities are debt securities that an institution has the positive intent and ability to hold to maturity. Held-to-maturity securities are generally reported at amortized cost. Securities not categorized as trading or held-to-maturity must be reported as available-for-sale. An institution must report its available-for-sale securities at fair value on the balance sheet, but unrealized gains and losses are excluded from earnings and reported in a separate component of equity capital.

Under Statement No. 115, institutions must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings. For example, if it is probable that an institution will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment has occurred. In addition, under FASB Staff Position Nos. FAS 115-1 and FAS 124-1, institutions should apply existing other-than-temporary impairment guidance to the determination of whether an impairment is other than temporary. Such guidance includes SEC Staff Accounting Bulletin No. 59, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (Topic 5.M. in the Codification of Staff Accounting Bulletins) and EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*.

The proper categorization of securities is important to ensure that trading gains and losses are promptly recognized in earnings and regulatory capital. This will not occur when securities intended to be held for trading purposes are categorized as held-to-maturity or available-for-sale. The following practices are considered trading activities:

(1) Gains Trading -- Gains trading is characterized by the purchase of a security and the subsequent sale of the same security at a profit after a short holding period, while securities acquired for this purpose that cannot be sold at a profit are typically retained in the available-for-sale or held-to-maturity portfolio. Gains trading may be intended to defer recognition of losses, as unrealized losses on available-for-sale and held-to-maturity debt securities do not directly affect regulatory capital and generally are not reported in income until the security is sold.

(2) When-Issued Securities Trading -- When-issued securities trading is the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities. A purchase of a "when-issued" security acquires the risks and rewards of owning a security and may sell the when-issued security at a profit before having to take delivery and pay for it. Because such transactions are intended to generate profits from short-term price movements, they should be categorized as trading.

(3) Pair-offs -- Pair-offs are security purchase transactions that are closed-out or sold at, or prior to, settlement date. In a pair-off, an institution commits to purchase a security. Then, prior to the predetermined settlement date, the institution will pair-off the purchase with a sale of the same security. Pair-offs are settled net when one party to the transaction remits the difference between the purchase and the sale price to the counterparty. Pair-offs may also involve the same sequence of events using swaps, options on swaps, forward commitments, options on forward commitments, or other off-balance sheet derivative contracts.

(4) Extended Settlements -- In the U.S., regular-way settlement for federal government and federal agency securities (except mortgage-backed securities and derivative contracts) is one business day after the trade date. Regular-way settlement for corporate and municipal securities is three business days after the trade date. For mortgage-backed securities, it can be up to 60 days or more after the trade date. The use of extended settlements may be offered by securities dealers in order to facilitate speculation on the part of the purchaser, often in connection with pair-off transactions. Securities acquired through the use of a settlement period in excess of the regular-way settlement periods in order to facilitate speculation should be reported as trading assets.

(5) Repositioning Repurchase Agreements -- A repositioning repurchase agreement is a funding technique offered by a dealer in an attempt to enable an institution to avoid recognition of a loss. Specifically, an institution that enters into a "when-issued" trade or a "pair-off" (which may include an extended settlement) that cannot be closed out at a profit on the

payment or settlement date will be provided dealer financing in an effort to fund its speculative position until the security can be sold at a gain. The institution purchasing the security typically pays the dealer a small margin that approximates the actual loss in the security. The dealer then agrees to fund the purchase of the security, typically buying it back from the purchaser under a resale agreement. Any securities acquired through a dealer financing technique such as a repositioning repurchase agreement that is used to fund the speculative purchase of securities should be reported as trading assets.

(6) Short Sales -- A short sale is the sale of a security that is not owned. The purpose of a short sale generally is to speculate on a fall in the price of the security. (For further information, *see* the Glossary entry for "Short position.")

One other practice, referred to as "adjusted trading," is not acceptable under any circumstances. Adjusted trading involves the sale of a security to a broker or dealer at a price above the prevailing market value and the contemporaneous purchase and booking of a different security, frequently a lower-rated or lower quality issue or one with a longer maturity, at a price above its market value. Thus, the dealer is reimbursed for losses on the purchase from the institution and ensured a profit. Such transactions inappropriately defer the recognition of losses on the security sold and establish an excessive cost basis for the newly acquired security. Consequently, such transactions are prohibited and may be in violation of 18 U.S.C. Sections 1001--False Statements or Entries and 1005--False Entries.

See also "Trading account."

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The organization costs of forming a holding company and the costs of other holding company start-up activities are sometimes paid by the bank that will be owned by the holding company. These are the holding company’s costs, whether or not the holding company formation is successful, and they should be reported as expenses of the bank holding company.